

CDBG LOAN GUARANTEE PROGRAM

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

PURPOSE

Provide “gap” financing for new or expanding businesses that cannot access complete funding for a project. “Gap” financing means other sources of financing (including bank loans and owner equity) have been maximized, and a gap exists in the total project cost.

AUTHORIZATION

Public Law 93-383, Title I of the Housing & Community Development Act of 1974, as amended; 24 CSR Part 570; and Missouri’s “Consolidated Plan” submitted to the U.S. Department of Housing and Urban Development.

HOW THE PROGRAM WORKS

The Department of Economic Development (DED) will guarantee a portion of the loss of a loan made to an approved project. The funds would be provided to the lender upon default and liquidation of collateral.

ELIGIBLE AREAS

The guarantee must be made in cooperation with a city or county sponsor in a “non-entitlement” area where the project will be located. A non-entitlement area is a city with a population less than 50,000 and/or county with a population less than 200,000.

ELIGIBLE APPLICANTS

For-profit manufacturing, processing and assembly companies that will have wages above the county average and provide medical benefits are prioritized. Other types of companies will be considered if they do not negatively impact other area businesses.

ELIGIBLE USE OF FUNDS

The purchase of new machinery and equipment or working capital is eligible. Refinancing,

payout of stockholders, buyouts or lines of credit are not eligible.

APPLICATION PROCEDURE

1. The company provides financial and project information to the applicant (city or county).
2. A public hearing notice is placed in a local newspaper. At least five (5) days later, the sponsor holds a public hearing. The sponsor then completes the environmental review, and has a Finding or No Significant Impact/Request for Funds (FONSI/RFF) notice published in the newspaper.
3. The application is submitted to DED. If it meets all eligibility criteria, DED will issue a letter specifying contingencies prior to final approval. This process takes approximately two to three weeks from the submission of a completed application.
4. Once the application is approved, the environmental review process has been completed, and the loan agreement and guarantee are executed, the company’s project may begin.
5. The bank disburses loan funds after the submission of invoices (paid or unpaid) which are dated after DED’s approval of the loan or the completion of the environmental review.

The application and guidelines are available at the Missouri Finance Network web site:
www.ecodev.state.mo.us/cd/finance

APPROVAL METHOD

Approval is based on the good character of the owners, sufficient cash flow, adequate management and reasonable collateral. This program is similar to the SBA 7(a) program, which must be exhausted prior to the use of this program.

FUNDING LIMITS

DED will guarantee 50% to 80% of the principal balance (after liquidation of assets) of a loan made by a financial institution. DED must determine that the borrower has exhausted other funding sources and only the least amount needed to complete the project may be provided. The maximum funding available is based on the LOWER of: \$400,000 per project or \$20,000 per new full-time permanent job created or retained.

SPECIAL PROGRAM REQUIREMENTS

- ?? As such, at least 51% of the new jobs to be created must be taken by persons considered “low to moderate income” (LMI). The LMI standard is based on the current annualized total family income. The LMI standard for a three person family is about \$22,000 in rural areas and \$32,000 in suburban areas.
- ?? The term of a CDBG-guaranteed loan is a maximum of three to five years for permanent working capital; five to ten years for machinery and equipment; and seven to fifteen years’ for real estate. The bank determines the interest rate, but it cannot exceed prime plus 2%.
- ?? Any available collateral should be secured, including personal guarantees for closely held companies, and/or corporate guarantees, as applicable. Personal guarantees are required for owners of more than 20% of the company. Equity injection for start-up projects is at least 20% to 30%.
- ?? Any administrative, legal or closing costs must be paid by the business.
- ?? If loan proceeds are used for the financing of building construction or the installation of machinery, federal and state wage rates must be paid to the employees of the contractors. Therefore, it is advised to use the loan proceeds for the purchase of machinery or working capital.
- ?? The environmental review is conducted by the applicant (city or county) and may be started at any time, even prior to the submission of an application.

CONTACT

MO Department of Economic Development
Incentives Section

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Jefferson City, MO 65102
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OTHER SERVICES OF DED

DED REGIONAL OFFICES

St. Louis (314) 340-6823
Kansas City (816) 889-2900
Trenton (660) 359-5960
Springfield (417) 888-4001
Moberly (660) 269-8802
Dexter (573) 624-9950
Houston (417) 967-5770
Jefferson City (573) 751-0482

RELAY MISSOURI SERVICE

Voice user calling a hearing/speech impaired user: 800-735-2466.
Hearing/Speech impaired user calling a voice user: 800-735-2966

EMPLOYMENT ASSISTANCE

DED’s Division of Workforce Development works in collaboration with its one-stop career system partners to offer workforce development assistance to job seekers and employers. By using the State’s network of one-stop career centers, customers can access America’s Job Bank, seek referral and placement assistance, career counseling and testing, labor market information and use Missouri WORKS!, an Internet based, self-service workforce development tool. To find your nearest Division of Workforce Development location, consult your telephone directory under State Government or visit:
www.ecodev.state.mo.us/wfd

MISSOURI MARKETPLACE

Information on thousands of Missouri-made products and services designed to encourage both in-state and out-of-state businesses and consumers to buy Missouri-made products. Registration is free and open to any Missouri-based company. To search the database or register your company, visit:
www.missourimarketplace.org